How do wars affect farm prices

?

Does farm income depend on factory production

?

Are farmer cooperatives worth while

?

What would consumers pay for milk if farmers gave it away

?

Why do some prices drop more than others during depressions

?

Some Economic Facts for Farmers

R. W. BARTLETT

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The charts appearing in this circular have been published from month to month in many Illinois newspapers. This chart-a-month project was sponsored by the farm advisers in Illinois and by the thirty-three dairy cooperatives affiliated with the Illinois Agricultural Association, who realized the need for facts as a basis for market decisions. Part of the funds for the project was supplied by the cooperatives. In accepting the funds the University adhered to its established policy of reserving the right to publish impartially the facts assembled.

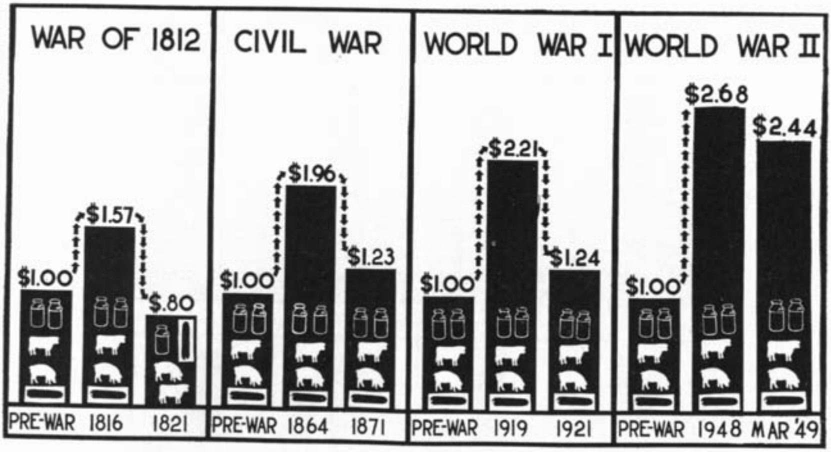
The assistance of a committee of the Illinois Agricultural Association in developing suggestions for the charts is sincerely appreciated. This committee included Forrest C. Fairchild, Margaret Grobman, Ira Hochstrasser, Arthur D. Lynch, and Judson P. Mason. Acknowledgment is also due to Helen K. Scott and James F. Kessler for their assistance in preparing and drawing the charts.

— R. W. Bartlett, Professor
of Agricultural Economics

Urbana, Illinois April, 1949

Cooperative Extension Work in Agriculture and Home Economics: University of Illinois, College of Agriculture, and the United States Department of Agriculture cooperating. H. P. RUSK, *Director*. Acts approved by Congress May 8 and June 30, 1914.

Prices of farm products rise during wars — fall after wars



War of 1812. Prices of farm products were highest in 1816, two years after the war ended. By 1821, five years later, they had fallen to about half the 1816 level.

Civil War. Prices of farm products in 1864 were nearly double those before the war. By 1871, seven years later, prices had fallen to about five-eighths of what they were in 1864.

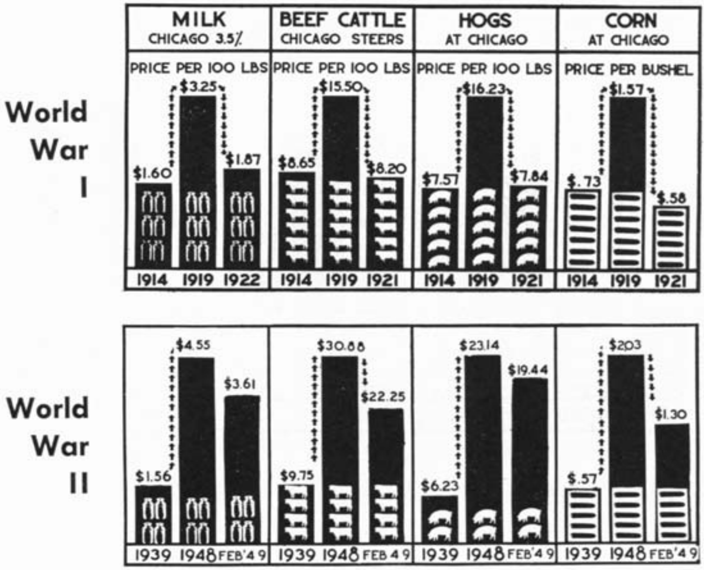
World War I. Prices of farm products in 1919 were about two and a fourth times as high as they were in 1914. By 1921, two years later, they had fallen to about three-fifths the 1919 prices.

World War II. In 1948 prices of farm products were about two and three-fourths times those received before the war.

Prices of most farm products turned downward during the winter of 1948-49. History is repeating itself.

Sources: Warren and Pearson, *Prices*, 1933
U. S. Department of Agriculture

Prices of different farm products rise and fall together



World War I

Milk prices in 1919 were about double those in 1914. By 1922 they had fallen to about three-fifths the 1919 prices.

Beef-cattle prices in 1919 were almost double those received in 1914. By 1922, three years later, they had fallen to a little over half the 1919 prices, and were a little lower than in 1914.

Hog prices in 1919 were more than double those in 1914. By 1921, two years later, they had fallen to less than half the 1919 prices.

Corn prices in 1919 were more than double those received in 1914. By 1921, two years later, they were less than two-fifths those received in 1919 and less than those for 1914.

World War II

Milk prices in 1948 were nearly three times as high as in 1939.

Chicago steers in 1948 sold for over three times the 1939 price.

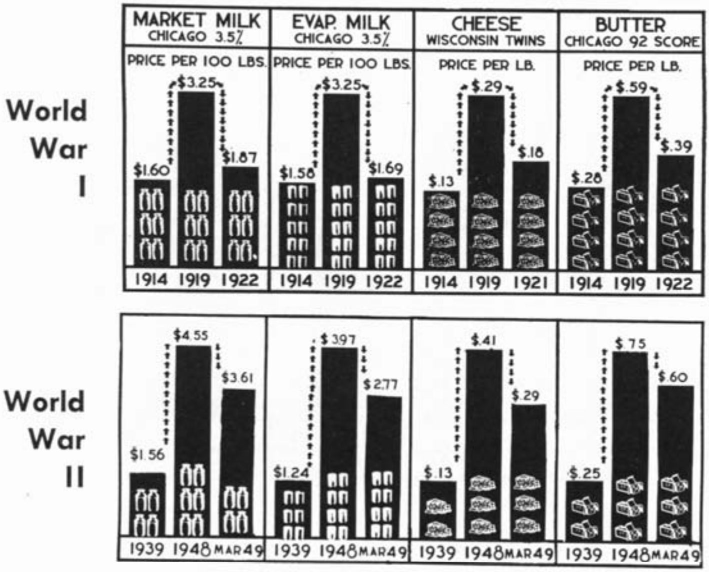
Hog prices in 1948 were not quite four times as high as in 1939.

Corn prices in 1948 were not quite four times the 1939 prices.

Prices of these farm products turned downward during the winter of 1948-49. History is repeating itself.

Sources: U. S. Department of Agriculture
Chicago Federal Milk Reporter

Prices of different dairy products rise and fall together



World War I

Market-milk prices in 1919 were about double those in 1914. By 1922, three years later, they had fallen to three-fifths the 1919 prices.

Evaporated milk. Prices at condenseries in 1919 were about double those in 1914. By 1922 they had fallen to about half the 1919 level.

Cheese. In 1919 the price for Wisconsin Twins cheese was about two and a fourth times that paid in 1914. By 1921 the price had fallen to about three-fifths the 1919 price.

Butter. The price for Chicago 92-score butter in 1919 was over twice that paid in 1914. By 1921 butter prices had fallen to about two-thirds the 1919 prices.

World War II

Market-milk prices in 1948 were about three times the 1939 prices.

Evaporated milk. Prices paid to condensery producers in 1948 were over three times those paid in 1939.

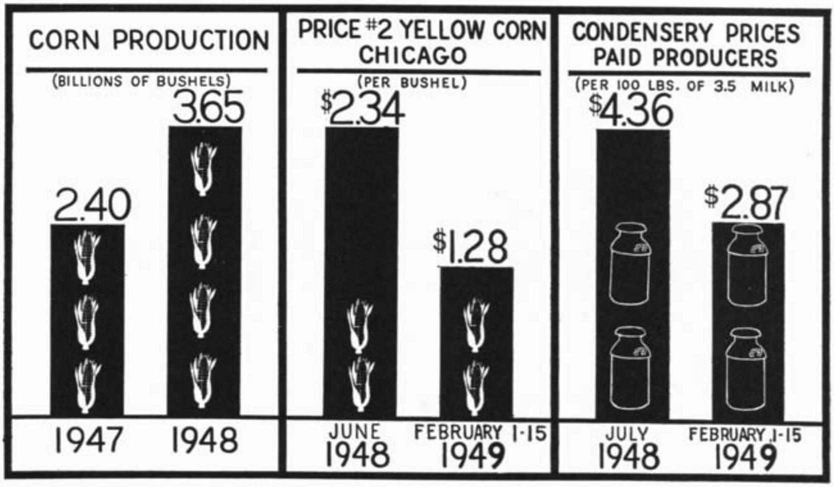
Cheese. The price for Wisconsin Twins cheese in 1948 was over three times the 1939 price.

Butter. In 1948 the price was three times the 1939 price.

Prices for these dairy products turned downward during the winter of 1948-49. History is repeating itself.

Sources: U. S. Department of Agriculture
Chicago Federal Milk Reporter

Corn prices have fallen more than milk prices



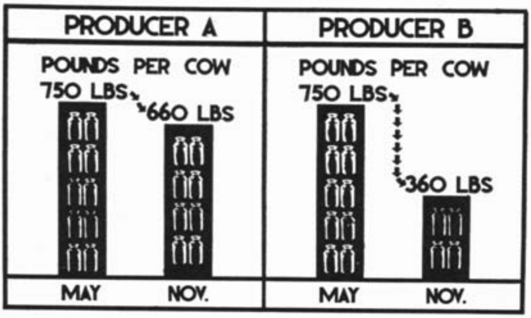
Corn production for 1948 has been estimated at 3.65 billion bushels, the highest in the eighty-three years that records have been kept. This is 1.25 billion bushels, or 52 percent, more than the 1947 corn crop.

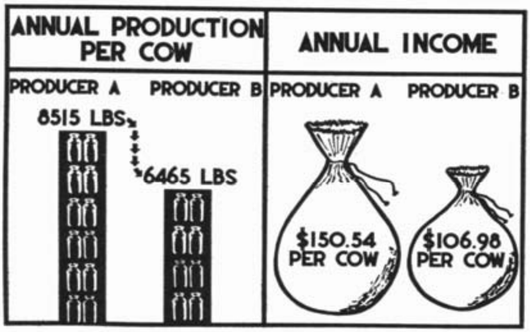
Corn prices have fallen because of this large crop. For the first half of February, 1949, corn prices averaged $1.28 a bushel, or 45 percent less than the peak 1948 price of $2.34 in June.

Milk prices have fallen as a result of lower corn and feed prices and diversion of milk to surplus uses. In the first half of February, 1949, the condensery price averaged $2.87 a hundred pounds, or 34 percent less than the peak 1948 price of $4.36 in July.

Sources: U. S. Department of Agriculture
Chicago Federal Milk Reporter

High milk production in November means high annual production per cow and high annual income per cow





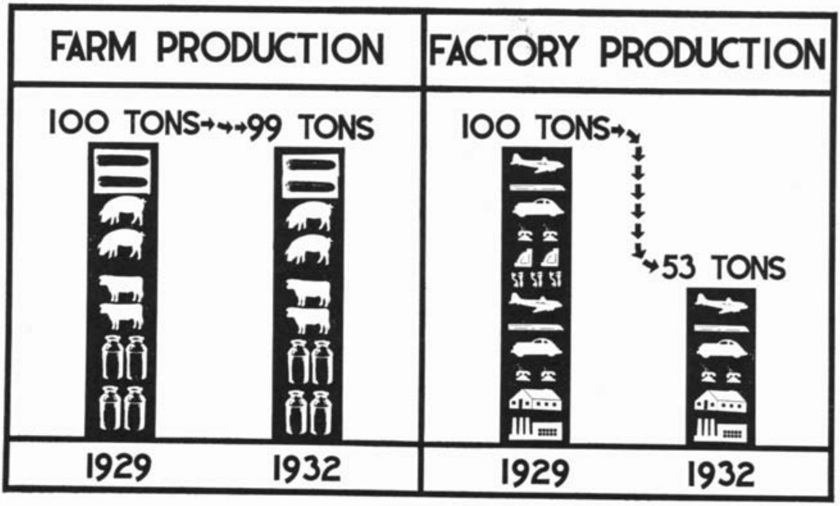
Producer A's herd had a heavy milk yield in November and in a year averaged 8,515 pounds per cow. Producer B's cows gave a lot of milk on grass but less than half as much in November as in May. For the year his cows averaged 6,465 pounds of milk, or about three-fourths as much as Producer A's cows.

Producer A received an annual income in 1940 of $150.54 per cow as a result of higher fall prices and high production in the late summer and fall months.

Producer B, because of his low fall production, received $106.98 per cow, or only about two-thirds as much income per cow as Producer A.

(These figures are from studies of typical groups of producers.)

During depressions farm production stays high factory production falls off



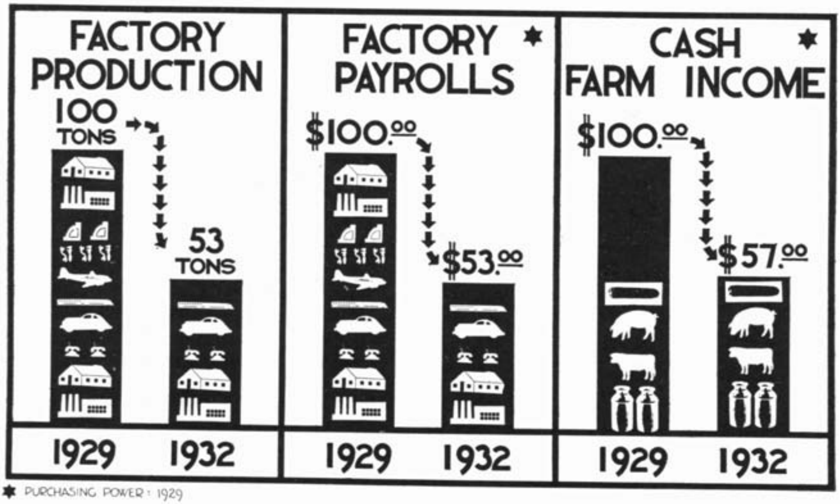
Beef, pork, milk, corn, and other farm products were produced at a high level throughout the depression of the 1930's.

In sharp contrast, production of automobiles, locomotives, airplanes, building materials, machine tools, telephones, cash registers, and a thousand-and-one other manufactured goods fell off sharply after 1929. By 1932 the total tonnage of these products was only a little more than half that of 1929 and was low from 1930 to 1936.

The standard of living for people in the United States depends largely upon the quantity of goods produced here. The reduction in the volume of goods manufactured in our factories was the primary cause of the decline in living standards of wage-earners, farmers, management, and industrial owners in the 1930's.

Source: U. S. Department of Agriculture

When factory production falls off factory payrolls drop and farm incomes go down



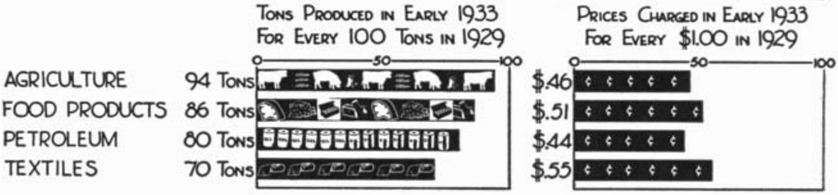
* PURCHASING POWER: 1929

Production of manufactured goods — automobiles, building materials, telephones, etc. — fell off sharply after 1929 until by 1932 it was only a little more than a half the 1929 production. This decline was accompanied by a similar decline in factory payrolls. By 1932 the purchasing power of factory payrolls had fallen to about half that of 1929.

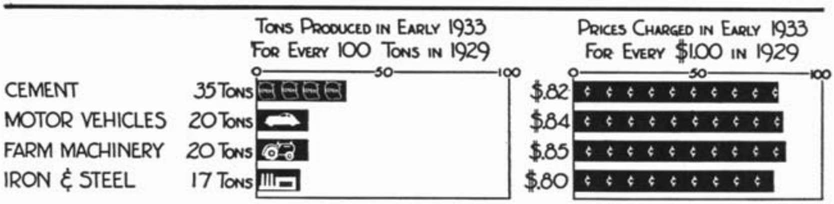
City people furnish the major demand for farm products. When their purchasing power declined because of the decline in factory payrolls, fewer dollars were paid to farmers for their beef, pork, milk and other products. In 1932 the purchasing power of farmers was only a little over half as much as it had been in 1929.

Source: U. S. Department of Agriculture

During depressions competitive industries have high production and low prices



but controlled industries have low production and high prices



Agriculture and food products. Millions of farmers compete in the production of farm products. Thousands of other people compete in the processing and distribution of foods. During depressions, production of food and fiber stays high while prices drop sharply.

Petroleum and textiles. Production of both these items is maintained at a high level during depressions. Their prices, like those of farm products, fall sharply and consumers can continue to buy the products.

Iron and steel and motor vehicles. A few companies produce most of the iron and steel and the motor vehicles. During depressions, prices of these products are maintained at a high level. People stop buying, and a drastic decline in production follows.

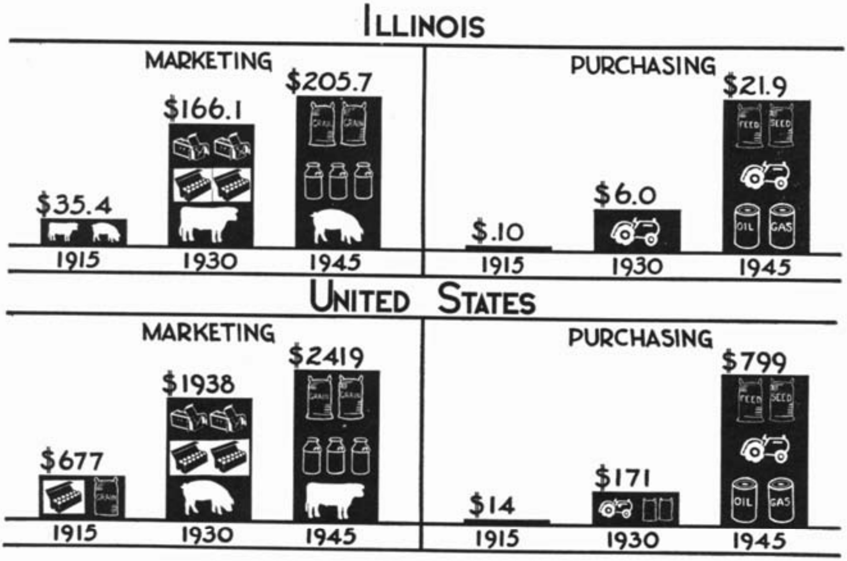
Farm machinery and cement. These are likewise produced by only a few companies and prices stay high during a depression. Sales drop off and many factories have to close down or run only a day or two a week.

If the purchasing power of farmers and wage-earners is to be held at a high level year in and year out, ways must be found to prevent drastic declines in production in our large, mass-production industries.

Source: Senate Document 13, 1935, p. 8

Farmer cooperatives have grown because they benefit farmers and consumers

(Volume handled — millions of 1935-1939 dollars)



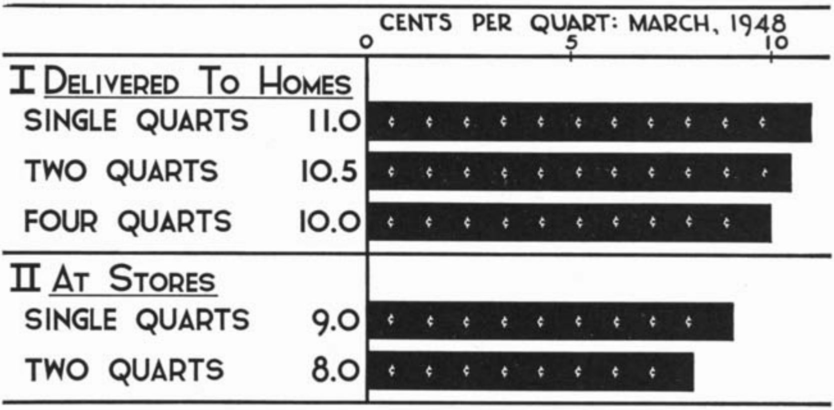
Why do we have farmer cooperatives? Farmer cooperatives now give to the family-size farm in the United States the same advantages of improved quality, improved service, and lower costs that are enjoyed by the large manufacturers of steel and of automobiles.

Do consumers benefit from farmer cooperatives? Farmer cooperatives have improved the quality of the products marketed and have lowered the cost of producing and marketing them. Hence they are directly in line with public interest since food is the biggest single item in the city worker's budget.

Was their growth due to exemption from corporate income taxes? Definitely *no.* In 1945 half of the 10,300 farmer cooperatives in the United States paid corporate income taxes in the same way as independent private corporations. In Illinois all the 87 county or regional farm-supply companies have also always paid corporate income taxes in the same way.

Sources: Cooperative Division, Farm Credit Administration
Opinion and Comment, University of Illinois Bulletin, February 16, 1947, pages 30-34

If farmers gave their milk away Chicago consumers would pay—



Chicago prices. In March, 1948, Chicago consumers paid 21.5 cents a single quart, 21 cents a quart for 2-quart deliveries, and 20.5 cents a quart for 4-quart containers delivered to homes. Some stores sold milk for 19.5 cents a single quart and 18.5 cents a quart for two quarts. In 1941, stores distributed 64 percent of the milk sold for home use in Chicago.

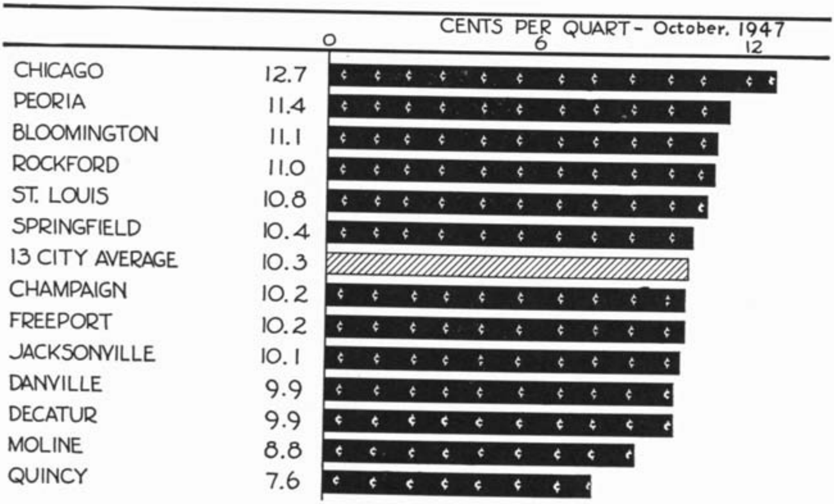
Price to farmers. Farmers received 10.5 cents a quart for Class I milk hauled to receiving plants in the 70-mile zone.

Price to distributors. In March, 1948, dealers received 11.0 cents a quart (21.5 cents minus 10.5 cents) for receiving, processing, bottling, storing, selling, and delivering to the home single quarts of milk. They received 8.0 cents a quart (18.5 cents minus 10.5 cents) when two or more quarts of milk were purchased by consumers at the stores.

Price to labor. Labor received 3.82 cents a quart in 1941 for selling and delivering milk to homes and 1.60 cents a quart for milk sold to stores. Labor costs are paid by distributors.

Sources: Fluid Milk Report, U. S. Department of Agriculture

If farmers gave their milk away 13 Illinois cities would pay—



Consumer price. In October, 1947, the average price of home-delivered milk in thirteen Illinois cities was 19.7 cents a quart. Consumer prices include the price going to farmers plus that going to distributors.

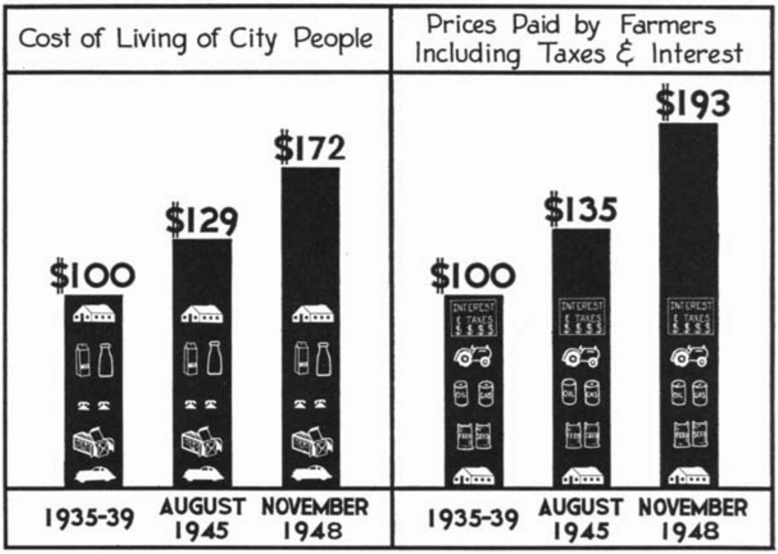
Price to farmers. Of this 19.7 cents, farmers received an average of 9.4 cents a quart in these thirteen markets.

Price to distributors. Milk distributors received an average of 10.3 cents a quart (19.7 cents minus 9.4 cents) for receiving, processing, bottling, storing, selling, and delivering milk.

Variations in dealers' handling margins. The gross margin for handling milk by distributors — which represents what consumers would pay if farmers gave their milk away — varies widely in different Illinois markets. Chicago's margin of 12.7 cents a quart was the highest and was 2.4 cents above the thirteen-city average of 10.3 cents a quart. Quincy's margin of 7.6 cents was the lowest, and was 2.7 cents less than the thirteen-city average.

Source: Illinois Agricultural Association

Costs of farm production have risen more than living costs in the city



Cost of living in cities. The cost-of-living index measures the changes in costs of usual items included in the budget of a city family with a moderate income. Before the war the average city worker spent about a third of his income for food; another third for rent, clothing, fuel, and electricity; and the other third for other items, including transportation, recreation, medical care, and home furnishings.

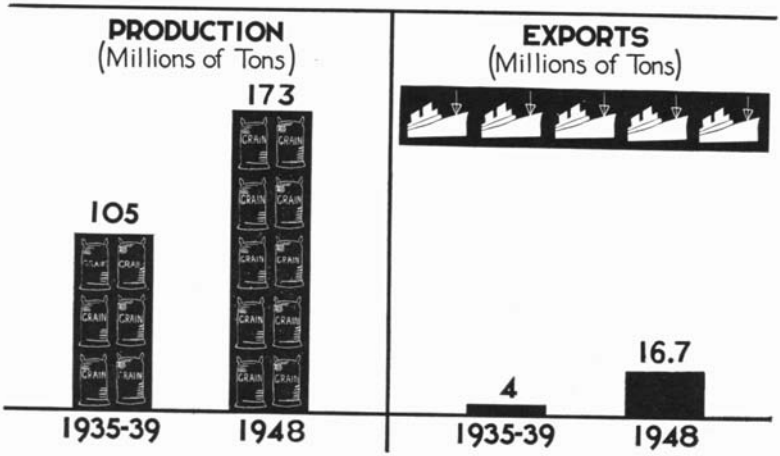
Cost of farm production. About two-thirds of the cash income received by farmers is paid for costs of production. Of these costs, the average farmer spends about a third for machinery, buildings, equipment, and hired labor; another third for feed, rent, interest, motor fuels, and repairs; and the rest for other items, including taxes, interest, livestock, and fertilizer.

Costs at the end of World War II. Price controls during the war held down both the cost of living in cities and the cost of farm production. In August, 1945, city people could buy for $129 the same quantity of goods (if they were available) that cost $100 before the war. At the same time it cost farmers $135 to buy what $100 would have bought before the war.

Rise in cost of living. When most price controls were dropped after the end of the war, both city living costs and farm-production costs increased sharply. In November, 1948, city families paid $172 for the same items that cost them $100 before

(see next page)

Exports of grain have risen less than production



EXPORTS ARE FOR FISCAL YEAR 1947-48

Grain production in the United States. Production of the principal grains rose from an average of 105 million tons before the war (1935-1939) to 173 million tons in 1948. This was an increase of 68 million tons or 65 percent.

Grain exports from the United States. Exports of grain increased from a prewar average of 4 million tons to 16.7 million tons. Thus exports were 12.7 million tons more than in 1939, or over four times as high.

Production increased much more than exports. The 68-million-ton increase in production was five times the 12.7-million-ton increase in exports during the same period. So in spite of greatly increased exports, the amount of grain available for use in this country rose from about 101 million tons a year, prewar, to 156 million tons in 1948.

Source: U. S. Department of Agriculture

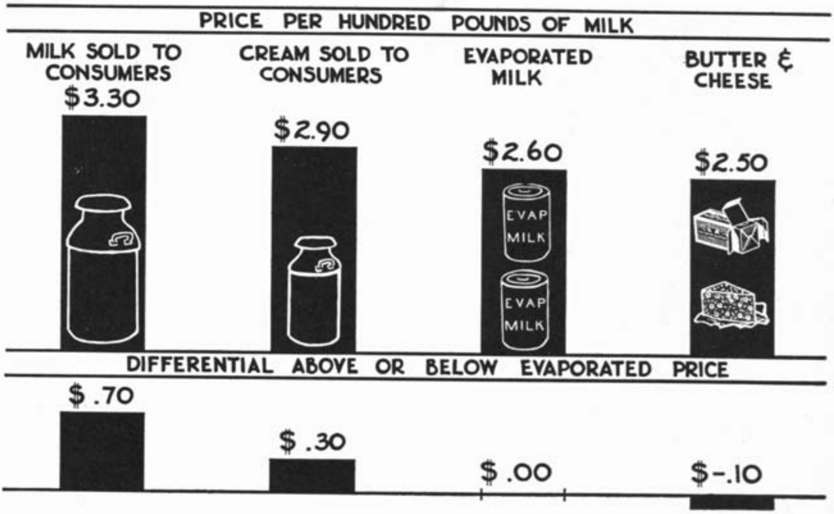
(from page 14)

the war. (If rent controls had been removed, these costs would have been somewhat higher.)

Rise in farm-production costs. Farm costs rose even faster than the cost of living. In November, 1948, farmers paid $193 for the same items that cost them $100 in the prewar period. Wages of farm labor, not included in these production costs, in 1948 were nearly four times the wages paid before the war.

Sources: U. S. Department of Agriculture
U. S. Bureau of Labor Statistics

Milk and cream sold to consumers bring farmers more money



Grade A milk price highest. Prices paid farmers for Grade A milk sold to consumers are higher than those paid for condensery milk or milk made into butter or cheese. In 1945 the price for Grade A milk in Chicago averaged 70 cents per 100 pounds, or 1½ cents a quart, more than that paid for milk to be evaporated ($3.30 minus $2.60).

Grade A cream price also higher. Grade A milk to be separated into cream also brings a premium over the price paid for condensery milk. In 1945 the price paid for Grade A milk separated into cream in Chicago averaged 30 cents per 100 pounds, or about ⅔ of a cent a quart, more than that paid for condensery milk.

Why are the prices of Grade A milk and cream higher than prices for milk to be evaporated or milk made into butter or cheese?

Because it takes a higher price to get farmers to produce milk which meets Grade A requirements than to produce milk to be evaporated or to be made into butter or cheese.

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